

VZCZCXRO7330  
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN  
DE RUEHSA #0663/01 0570852  
ZNR UUUUU ZZH  
R 260852Z FEB 07  
FM AMEMBASSY PRETORIA  
TO RUEHC/SECSTATE WASHDC 8351  
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUCPCIM/CIMS NTDB WASHDC  
RUCPDC/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHJO/AMCONSUL JOHANNESBURG 6247  
RUEHTN/AMCONSUL CAPE TOWN 3986  
RUEH DU/AMCONSUL DURBAN 8604

UNCLAS SECTION 01 OF 03 PRETORIA 000663

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR OAISA/RALYEA/CUSHMAN  
USTR FOR COLEMAN

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)  
PGOV, SF  
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER FEBRUARY 9,  
2007 ISSUE

PRETORIA 00000663 001.2 OF 003

¶1. (U) Summary. This is Volume 7, issue 08 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Budget in Brief
  - Inflation "Still in Check"
  - EU Include SA in SADC EPA Negotiations
  - Interest Groups Raise Concerns About Biofuels Strategy Development Process
  - SA Competitiveness Among Top 50
  - US Marines Order 90 SA Vehicles
- End Summary.

Budget in Brief

¶2. (U) In his 2007 Budget Speech, Minister of Finance Trevor Manuel, announced that South Africa has achieved a budget surplus for the first time since the early-1980's at 0.3% of GDP. Another budget surplus of 0.6% of GDP is expected for the 2007/08 fiscal year. Manuel said the surplus was mainly due to higher-than-expected revenue collection as a result of wider tax collection and buoyant economic growth. Other achievements for the SAG include a debt-to-GDP ratio that has fallen to 31% of GDP and debt servicing costs of only 10.5% of total expenditure. Manuel's speech painted a healthy picture of the economy with GDP growth for 2006 expected to reach 4.9%. In 2007, Manuel forecast slightly weaker growth of 4.8% but added that the economy should average around 5.1% growth over the next three years. Inflation, as measured by CPIX is expected to average 4.7% per year up to 2010. However, the ratio of tax-to-GDP has risen to more than 27%, well off government's original promise of 25%, and is set to rise to 28% or more in coming years. This, one economist said, indicates that South Africans were overtaxed and that the SAG's growing share in the economy is becoming counter-productive.

¶3. (U) There were few surprises on the taxation side. Manuel gave tax relief of R8.4 billion (\$1.2 billion) to low income taxpayers, bringing net relief to 12.4 billion (\$1.75 billion). Arguably the most well-received of the tax reforms was the scrapping of the tax on interest and rental income of retirement funds which will fall

away on March 1, 2007. Manuel has also amended the contentious Secondary Tax on Companies with the rate of tax charged on dividend payments set to fall from 12.5% to 10% on October 1, 2007. The conversion to a dividend tax will be imposed at the shareholder level by the end of 2008 subject to the renegotiation of a number of international tax treaties. Excise taxes have predictably been hiked, with tax on a packet of 20 cigarettes increased by 60 cents, tax on a can of beer by 5 cents, a bottle of wine by 10 cent, and a bottle of spirits by R1.88. Bad news for motorists is that the general fuel levy will increase by 5 cents per liter while contributions to the Road Accident Fund will also be increased by the same amount. That implies a 10 cents increase in the price of a liter of petrol.

14. (U) The SAG's policy of social delivery, job creation and human capital development received frontline attention in the budget. Education continued to be the biggest single spend item, receiving 35% of the total social services budget. Social services accounted for 51% of the allocated expenditure. Key objectives included increased teacher remuneration, upgrading public transport, and improving the delivery of housing, health, education and justice. Over the next three years, Manuel set aside an additional R13.3 billion (\$1.9 billion) for the 2010 FIFA World Cup, bringing the total contribution from national government to R17.4 billion (\$2.5 billion), with R8.4 billion (\$1.2 billion) for stadiums and R9 billion (\$1.3 billion) for transport infrastructure. Further, Manuel increased expenditure on police by 34% over the next three years and money allocated to the Department of Justice increased by 52% over the same period. The increased spending on justice would be to improve court capacity and reduce case backlogs, while more police will be recruited to bring the police force from 152,000 to 190,000 by 2010. Manuel also revealed plans to impose a mandatory earnings-related social security tax to provide improved unemployment insurance, disability and death benefits for taxpayers, with a view to implementation in 2010. For low-income workers falling below the tax threshold, Manuel said a wage subsidy was in the offing. Meanwhile, state old-age pension, disability and care

PRETORIA 00000663 002.2 OF 003

dependency grants increase by R50 to a maximum of R870 (\$123) per month. Child support grants will be increased by R10 to R200 (\$28) per month while foster care grants rise to R620 (\$87) per month. The number of beneficiaries of social grants has risen from 3 million in 1997 to 11.8 million today, almost one quarter of the total population.

15. (U) Regarding the possible imposition of a windfall tax on the liquid fuels sector, Manuel said recommendations involved either an outright tax on windfall profits or an incentive arrangement for new investment in liquid fuel capacity. Although Manuel said both proposals had merit he assured industry that it would be consulted before the matter was finalized. This implies that companies like Sasol could avoid the tax if they invested a portion of their profits in expanding productive capacity. The Minister continued a gradual process of exchange control relaxation and lowered the current shareholding threshold for foreign direct investment outside Africa from 50% to 25% to further enable SA companies to engage in strategic international partnerships. (Budget Speech, February 21, 2007)

Inflation "Still in Check"  
-----

16. (U) Statistics South Africa (StatsSA) announced that CPIX inflation (consumer price index excluding mortgage charges) increased by 5.3% in January, slightly above forecasts of 5.2%, after 5.0% in December. Stats SA said the CPIX increase was due mainly to hikes in food, followed by transport, medical care and health expenses that were partly balanced out by annual decreases in clothing and footwear. Economists pointed out that January is normally the month when most traders implement their annual price hikes. Moreover, economists feel that inflation is still largely under control and expect that the current inflationary cycle is very close to a peak and that a downtrend could start soon. The Reserve Bank kept its key repo rate steady at 9% last week after 200 basis points worth of hikes last year, saying the inflation outlook had

improved. (Fin 24, February 22, 2007)

#### EU Include SA in SADC EPA Negotiations

---

¶17. (U) The European Union (EU) has agreed to include SA in its negotiations with the Southern African Development Community (SADC) for an Economic Partnership Agreement. SA, which is a member of both the Southern Africa Customs Union (SACU) and SADC, is pressing for trade integration in the region among all the various custom unions. SA and the EU are at the same time reviewing their Trade, Development and Cooperation Agreement in an attempt to align the SA and SADC-EU trade agreements. The EU has, however, placed conditions on SA's participation. The EU wishes to provide the lesser developing countries greater benefits, which will result in a differential trade regime. SA will likely continue to press for a single uniform trade agreement. The first formal meeting between SA and the EU is scheduled in the beginning of March. (Business Day, February 16, 2007)

#### Interest Groups Raise Concerns About Biofuels Strategy Development Process House Costs

---

¶18. (U) South African civil society, environmental groups and trade unions have expressed concern about the manner in which the Department of Minerals and Energy (DME) conducts the country's biofuel strategy consultation process. According to Liz McDaid of ASFC, the DME provided only four days for people to comment on the strategy. In addition to the short notice concerns, the stakeholders believe that cabinet has already agreed in principle to the content of the document, which will have an impact on the industrial policy of the country. Other concerns are related to food security, job creation (approximately 55,000) and that growing food to fuel cars would cause price increases and food shortages. The stakeholders argued that they need more time to formulate meaningful contributions to the draft document. The Botanical Society of SA (BSSA) complained that they had put together some technical concerns to raise with the DME, but they are disappointed because they will not have time to present them properly. The stakeholders argue that the strategy does not support government's policy for accelerating growth and job creation because only

PRETORIA 00000663 003.2 OF 003

large-scale commercial corporations would benefit from it. Meanwhile, other stakeholders indicated that they would boycott the due-planned series of workshops and organize their own to help the broader civil society. (Business Day and Cape Times February 16, 2007)

#### SA Competitiveness Among Top 50

---

¶19. (U) According to the World Economic Forum's Global Competitiveness Index (CGI) for 2006-07, South Africa was ranked among the top 50 economies in the world, coming in at 45th place, down from 40th place in 2005. The CGI ranks countries along nine categories, including institutions, macro-economic policies, and health and education. South Africa was ranked in the 30's and 40's in most categories but scored a disastrous 103rd place in the health and primary education category. South Africa's highest rankings were in market efficiency (33rd place) and institutions (36th place). According to the CGI, Switzerland has the most competitive economy in the world. The United States ranks at 6th place, down from the 1st place in 2005. (ABSA EconoTrends, February 21, 2007)

#### US Marines Order 90 SA Vehicles

---

¶10. (U) The US Marine Corps has placed a \$55.4 million order for 90 South African-designed RG33 mine-resistant and ambush-proof vehicles. BAE Systems' South African unit, Land Systems OMC, won the order after turning around a request for a proposal from a clean-sheet design to delivering a working, blast-tested prototype in less than seven weeks. The advanced tactical wheeled vehicles

will offer enhanced protection to US marines and soldiers under the Mine Resistant Ambush Protected (MRAP) vehicle program. "BAE Systems has successfully completed its own blast testing of the RG33 vehicle design, and the results met or exceeded the MRAP survivability requirements in all cases," said John Swift, MRAP Program Manager for BAE Systems at its Triangle, Virginia office. (I-net Bridge, February 20, 2007)

BOST